

Message Text

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TO SECSTATE WASHDC 1254

INFO AMEMBASSY JAKARTA

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C O N F I D E N T I A L THE HAGUE 2110

AIDAC

E. O. 11652: GDS

TAGS: EAID, ID

SUBJECT: IGGI-14: MEETING WITH INDONESIAN DELEGATION

REF: STATE 82469

1. U. S. DELEGATION PAID USUAL COURTESY CALL ON WIDJOJO AND INDONESIAN DELEGATION PRIOR OPENING FORMAL IGGI SESSIONS. FOLLOWING IS SUMMARY MAJOR POINTS COVERED DURING DISCUSSIONS:

A. MEDIUM TERM BORROWING: IN RESPONSE TO REQUEST BY MACDONALD FOR ASSESSMENT CURRENT SITUATION, WIDJOJO SAID THAT HE IS SATISFIED WITH RECENT MEASURES UNDERTAKEN BY GOI TO CONTROL PERTAMINA' S INVESTMENT PROGRAM. OF PARTICULAR IMPORTANCE, ACCORDING TO WIDJOJO, ARE REGULATIONS PROMULGATED THIS WEEK IMPLEMENTING PRESIDENTIAL DE REE OF LAST OCTOBER ON EXTERNAL BORROWING BY PUBLIC AGENCIES. DECREE COVERS ALL FORMS EXTERNAL BORROWINGS, INCLUDING CONVERSIONS INTO LOCAL CURRENCY. IT ALSO REQUIRES PRIOR APPROVAL BY FINANCE MINISTRY (MOF) OF ALL FOREIGN BORROWINGS AND REPORTS EVERY THREE MONTHS BY DEBTOR AGENCY ON IMPLEMENTATION OF FOREIGN CONTRACTED LOANS. SPECIAL DIRECTORATE HAS BEEN CREATED IN MOF WITH SEPARATE DIVISION TO REVIEW PERTAMINA FINANCIAL OPERATIONS. IN ANSWER QUESTIONS

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TION REGARDING ROLE BOARD OF COMMISSIONERS, WIDJOJO SAID THEY CAN BE EXPECTED BE MUCH MORE ACTIVE THAN IN PAST AND THAT BOARD PROBABLY WILL BE EXPANDED FROM 3 TO 5 MEMBERS ALTHOUGH THIS NOT OFFICIAL YET. RACHMAT SALAH ACKNOWLEDGED THAT APPROXIMATELY \$35 MILLION LOAN FOR OIL SUPPLY SHIPS (HAGUE 1929) ONLY RECENTLY CAME TO ATTENTION OF GOVERNMENT BUT THAT PERTAMINA NOW UNDERSTANDS ANY LOAN WOULD BE COUNTED AGAINST PERTAMINA' S SUBCEILING IN IMF STANDBY. NEW REGULATIONS ON FOREIGN BORROWING WILL BE DISTRIBUTED TO IGGI DONORS AS SOON AS TRANSLATION COMPLETED. USDEL SAID HE FELT IGGI MEMBERS WOULD BE INTERESTED IN ALL THAT COULD BE SAID ON THIS SUBJECT IN OPEN SESSION.

B. LGN AND OIL SECTOR INVESTEMENTS: WIDJOJO CONFIRMED THAT GOVERNMENT HAD HOPED OBTAIN CONCESSIONAL FINANCING FROM JAPAN AND U. S. FOR TWO MAJOR LNG PROJECTS. HE SAID THAT JAPAN IS PREPARED TO PROVIDE MIX HARD AND SOFT LOANS AND THAT COMBINATION WOULD PUT TOTAL FINANCIAL PACKAGE OUTSIDE MEDIUM- TERM CREDIT RESTRICTION BY SUBSTANTIAL MARGIN . JAPANES PROJECT WOULD INCLUDE LIQUEFACTION FACILITIES IN INDONESIA AND REGASIFICATION INSTALLATION IN JAPAN BUT WOULD NOT PROVIDE FOR TANKERS. WIDJOJO SAID HE HOPED U. S. ALSO WOULD BE ABLE PROVIDE COMBINATION EX/ IM LOANS WITH HIGHLY CONCESSIONAL DEV LOAN FOR MAJOR LNG PROJECT. MACDONALD NOTED THAT ALTHOUGH INDONESIA' S DEBT SERVICE RATIO THIS YEAR IS SEEMINGLY COMFORTABLE, GRACE PERIOD ON LOANS UNDERTAKEN SINCE 1966 WILL BE EXPIRING SOON AND THAT INCREASED PRINCIPAL PAYMENTS AS WELL AS PAYMENTS POSTPONED UNDER PREVIOUS DEBT RESCHEDULING EXERCISES WILL GREATLY INCREASE INDONESIA' S DEVT SERVICE BURDEN. LNG AND MAJOR OIL SECTOR INVESTMENTS SHOULD BE UNDERTAKEN ONLY AFTER TECHNICAL AND ECONOMIC FEASIBILITY HAVE BEEN CLEARLY ESTABLISHED AND AN ASSESSMENT MADE OF PROJECT' S IMPACT ON PROJECTED DEBT PROFILE. PROJECTS SHOULD BE VETTED NOT ONLY FOR THEIR INDIVIDIAUL COMMERCIAL ATTRACTIVENESS BUT ALSO FOR THEIR OVERALL ECONOMIC EFFECT.

C. SECOND FIVE YEAR PLAN: MACDONALD ASKED WIDJOJO WHETHER INDONESIAN DELEGATION PLANNED PRESENT OUTLINE SECOND FIVE YEAR PLAN DURING FORMAL SESSION. WIDJOJO INDICATED THAT HE EXPECTED PLAN WOULD BE FULLY DISCUSSED
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DURING NEXT DECEMBER MEETING. DISCUSSIONS NEXT TWO DAYS WOULD HOWEVER REFLECT PRESENT THINKING ON DIRECTIONS NEXT PLAN.

D. FOOD OUTLOOK: IN RESPONDING TO MACDONALD' S QUESTION ON FOOD SITUATION, WIDJOJO NOTED THAT GOVERNMENT HOPES OBTAIN 600 TO 900 THOUSAND TONS RICE FROM DOMESTIC SOURCES BUT THERE IS CONSIDERABLE CONCERN THAT

EVEN LOW END THIS TARGET WOULD NOT BE MET BECAUSE FARMERS ARE HOLDING BACK GRAIN FOR SPECULATIVE PURPOSES. WIDJOJO SAID CURRENT HARVEST WOULD BE GOOD BUT THAT OCTOBER HARVEST, WHICH CONSTITUTES ABOUT 30 PERCENT OF TOTAL PRODUCTION, IS STILL OPEN QUESTION. WIDJOJO POINTED OUT THAT RECENT NEGOTIATIONS WITH GOJ ON FOOD ASSISTANCE WERE INCONCLUSIVE AND THAT THE U. S. PL 480 PROGRAM HAS, ACCORDINGLY, ASSUMED MUCH GREATER IMPORTANCE. MACDONALD RAN THROUGH ADVERSE FACTORS AFFECTING PL 480 AVAILABILITIES, STRESSING THAT WE DID NOT FORESEE ANY POSSIBILITY MEET GOI REQUEST FOR 400,000 TONS ALTHOUGH, AS IN PAST, WE WOULD TRY TO DO OUR " FAIR SHARE".

E. PRIVATE INVESTMENT: WIDJOJO REPORTED THAT PRIVATE INVESTMENT COMMITTEE WILL SHORTLY BECOME QUOTE INVESTMENT COORDINATING AGENCY UNQUOTE WITH GREATLY EXPANDED POWERS ISSUE OPERATING PERMITS, EXEMPTIONS AND TAX HOLIDAYS. IN RESPONSE TO QUESTION WHETHER AGENCY WOULD HAVE AUTHORITY OVER REGIONAL AND LOCAL GOVERNMENTS, WIDJOJO INDICATED THAT IT WOULD. IT WAS, HOWEVER, UNCLEAR HOW FAR AUTHORITY WOULD EXTEND AND HOW IT WOULD BE EXERCISED. MIDDENDORF

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